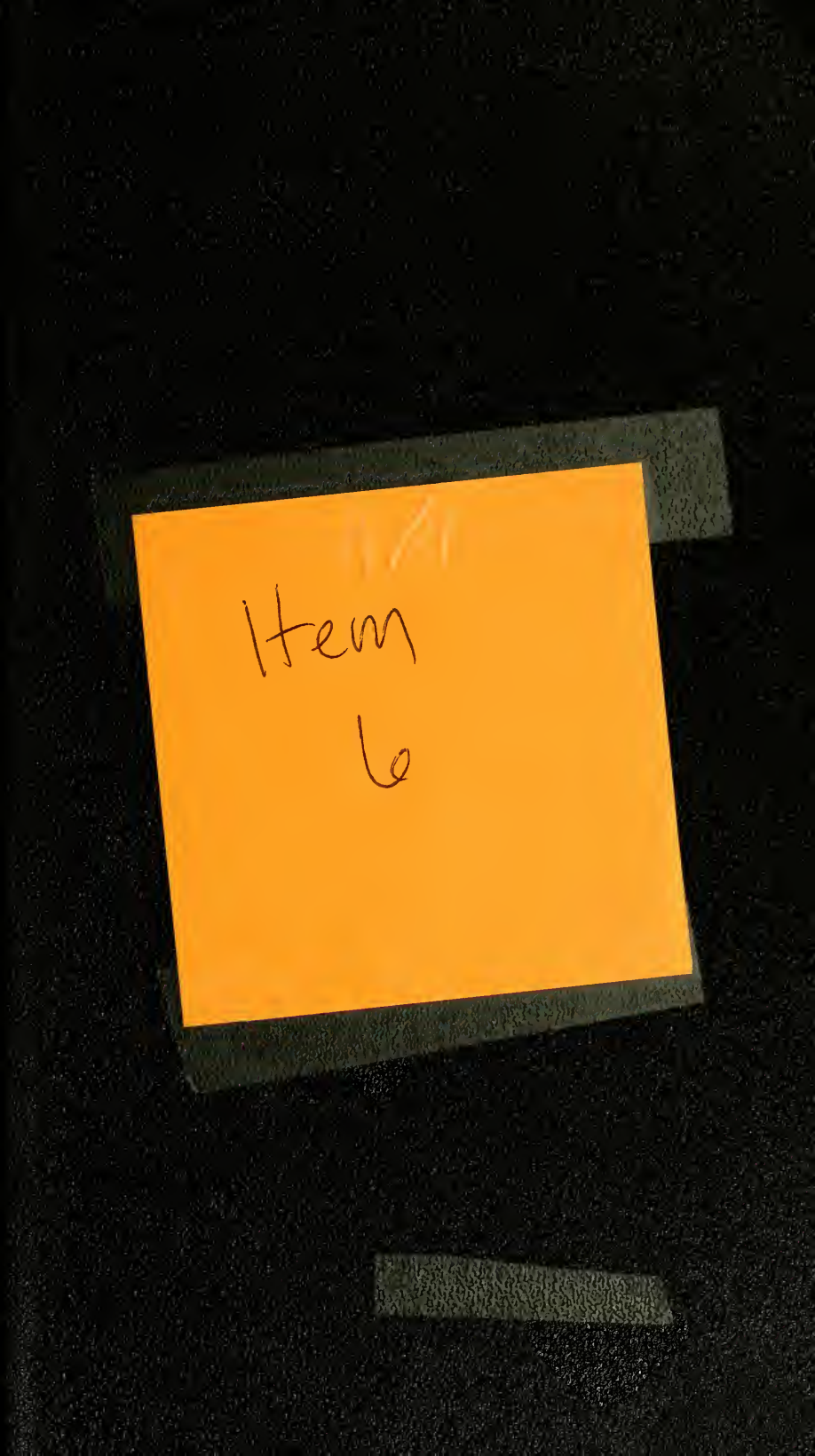
Item
6

PART 7

DEPLETION

PREPARED BY THE

STAFFS OF THE TREASURY AND THE
JOINT COMMITTEE ON INTERNAL
REVENUE TAXATION

APRIL 1951

UNITED STATES
GOVERNMENT PRINTING OFFICE
81736 WASHINGTON : 1951

DEPLETION

I. SUMMARY

In connection with the Revenue Act of 1950 the staffs suggested the reduction in the rates of percentage depletion allowed to oil, gas, sulfur, and the nonmetallic minerals as well as a modification of the existing treatment of intangible drilling and development costs in the oil and gas industries. The tax rate increases enacted in the legislation of 1950 as well as those now under consideration make such changes even more necessary today.

The Secretary of the Treasury testifying before this committee on February 5, 1951, renewed the recommendations advanced in 1950. These were:

(*a*) That the rate of percentage depletion in the case of oil and gas be reduced from 27½ percent of gross income to 15 percent;

(*b*) That the rate on sulfur be reduced from 23 to 15 percent;

(*c*) That the rate in the case of nonmetallic minerals, other than coal and sulfur, be reduced from 15 to 5 percent; and

(*d*) That the percentage depletion allowance for oil and gas be computed by applying the percentage to gross income reduced by the amount of the intangible drilling and development costs taken as a deduction with respect to the property.

No changes were suggested in the rates of percentage depletion allowed in the case of metal or coal mines.

In the public hearings witnesses for the extractive industries generally emphasized that current conditions necessitate an expansion in exploratory activity and that a reduction in the rates of percentage depletion would tend to discourage such activity just at the time it was needed most. In a number of cases great stress was placed on the importance of the minerals for the defense program. Witnesses representing the oil and gas industry also argued that the proposed change in the depletion rate would work great hardship in the case of stripper-well and so-called secondary recovery operations. It was argued that such a change would force the premature abandonment of stripper wells and preclude the application of secondary recovery methods.

The staffs have explored these arguments and have developed possible methods of dealing with them for the consideration of the committee. To eliminate any possibility that the proposed change in depletion rates will unduly restrict exploratory activities taxpayers could be permitted as large a deduction as under present law provided they make sufficiently large expenditures for exploration and discovery. This could be accomplished by allowing an additional deduction based on the excess of exploration and discovery expenditures over the reduced depletion deduction, subject to the limitation that the com-

bination of the deduction for depletion and the new exploration and discovery deduction could not exceed the depletion deduction allowed under existing law. While the definition of exploration and discovery costs for this purpose has not yet been fully developed, it would necessarily have to be limited to such costs as are incurred in connection with wildcatting and exploration in unproven areas rather than in the further development of proven fields.

Under this modification oil and gas operators would be given a 15-percent depletion rate in all cases and could qualify for additional deductions in the event that their total expenses for exploration and discovery exceeded the amount of the 15-percent depletion deduction. The additional deduction would be permitted up to an amount equal to the difference between the deductions under a 15-percent rate and a 27½-percent rate. In the case of a sulfur producer additional deductions would be permitted in the event that amounts expended in exploration and discovery exceed the 15-percent depletion deduction. The ceiling for the additional deduction in this case would be the difference between depletion at the rate of 15 percent and at the rate of 23 percent. If it is decided to reduce the rate on nonmetallic minerals, a similar rule could be applied. Thus, the present rates of depletion would be available to any taxpayer who in fact used the funds for exploration and discovery work.

Because of the irregularity of exploration and discovery expenditures, as well as the year to year fluctuations in income, it would be desirable to provide a carry-forward of the excess of the exploration and discovery expenditures over the ceiling fixed upon the combined deductions.

It is recognized that it may be necessary to limit the proposed special deduction for exploration and discovery costs so that a taxpayer will not be able to obtain a tax reduction in excess of the amounts actually expended for these purposes.

It is believed that a reduction in the depletion rate on oil and gas will have little or no effect upon the amount of allowable depletion in the case of most of the so-called stripper-well operators because their profit margins are comparatively small and, therefore, the amount of allowable depletion is in fact determined by the 50 percent of net income limitation. However, a number of witnesses urged the importance of a 27½-percent depletion rate for the stripper-well operators and in view of the character of their operations the present 27½ percent rate might be continued in their case. A stripper property might be defined as one on which the average unrestricted production per well is less than a stated number of barrels of oil per day.

Closely related to the stripper-well problem is that of the producer using secondary recovery methods. It is more likely that the change in the depletion rate will have real meaning in these cases than in the case of stripper wells because the secondary recovery operation is characterized by a short period of flush production during which the depletion allowance may not be determined by the percentage of net income limitation, even though the latter may effectively determine the amount of allowable depletion during most of the life of the property. If the committee wishes, the 27½ percent depletion rate might be continued in such cases without restriction.

The adoption of the Secretary's proposals in their unmodified form would increase the revenues by about $300,000,000 a year under

existing tax rates. If the proposals are modified to give recognition to the arguments with respect to exploratory activity, and stripper-well and secondary-recovery operations, it is estimated that the increased yield under existing rates would be between two-thirds and three-fourths of that obtained under the Secretary's proposals.

II. THE DEPLETION RATE ON OIL AND GAS

In order to appreciate the significance of percentage depletion it is important to compare it with the tax treatment of other income-producing assets. Generally, capital investments in physical properties used in business are recovered tax-free through depreciation deductions, which spread the return of the investment over the useful life of the property. When the original investment is recovered, a depreciation deduction is no longer allowable. Cost depletion which is available to all extractive industries, like depreciation, permits the taxpayer to recoup during the useful life of the asset its cost to the taxpayer.

Percentage depletion, which is available to certain extractive industries, is taken when it exceeds the pro rata part of the investment which would be allowed under cost depletion and continues throughout the productive life of the property even after 100 percent of the investment has been recovered tax-free.

The deductions permitted under the percentage-depletion formula may total many times the amount of the investment in the property. A statistical study of depletion deductions taken in 1947 indicates that in the case of the oil and gas industry the depletion deductions claimed under the 27½-percent rate were 16 times what they would have been under a cost-depletion system.

Percentage depletion for oil and gas was introduced in 1926 as a substitute for the discovery value depletion provisions previously in effect. The change was made on the initiative of the Committee on Finance which recommended a rate of 25 percent of gross. On the floor of the Senate various alternative rates were proposed ranging up to 40 percent. The Senate finally adopted 30 percent and in conference this was cut to 27½ percent. The apparent objective was to provide a method which would allow approximately the same aggregate deduction to the industry as discovery value depletion and at the same time avoid certain serious administrative problems which discovery value depletion had produced. The range of the rates considered during the time the bill was before Congress suggests that the rate finally agreed upon did not represent a scientifically determined solution.

Even if it is assumed that the 27½ percent rate was appropriate in 1926 it is clear that the changes in tax rates and conditions in the industry which have taken place since that time raise a question concerning the appropriateness of the 27½ percent rate now.

The comparative tax advantages accorded oil and gas producers by the special depletion allowance have been greatly enhanced by increases in tax rates since the allowance was first adopted. Studies previously submitted to the committee indicate that percentage depletion in excess of cost depletion exempts from taxation, on the average, approximately 40 percent of corporation net income from the production of oil and gas. Thus, for the average corporate oil producer, only 60

percent of his oil income, net of production costs including cost depletion and losses, is subjected to either the regular corporation income tax or the excess profits tax. With respect to the income tax alone this means an average tax rate of about 28 percent compared with the general corporate rate of 47 percent. This exclusion reduces the tax burden on oil producers and leaves them with larger proportions of income after tax as compared with other industries.

The relative advantage of this tax concession varies with the tax rate. When percentage depletion was first made available to oil companies, the corporation tax rate was 13 percent. Under this rate the effect of the concession was to leave an oil company $1.06 after taxes for every dollar of disposable income left to a company with equivalent net income, in an industry which was not entitled to percentage depletion. Under the 38 percent rate in effect from 1946 to 1950 the average oil company was permitted to retain $1.25 for every dollar of disposable income retained by an interprise which could not use percentage depletion. Under the present 47 percent corporate tax rate this ratio is $1.35 to $1. If both companies are now subject to the existing maximum effective rate on corporate income, 62 percent, the oil company retains $1.65 for every dollar retained after taxes by the other enterprise. If these two companies are subject to the present 77-percent combined excess profits and corporate income tax rates on increased earnings, the oil company will be permitted to retain $2.34 for every dollar of these increased earnings left to the ordinary corporation after taxes.

Changes in tax rates since the adoption of the 23-percent rate on sulfur cast doubt upon the appropriateness of this rate at the present time. Similar consideration can be raised in connection with the other nonmetallic minerals.

Much of the argument used to justify the 27½ percent depletion rate is based upon the idea that the oil and gas industry is highly speculative and, therefore, that its adequate development requires special incentives for investment. The financial loss sustained in drilling an unproductive oil well has a finality which appears to indicate a unique hazard. However, it is questionable whether the modern oil and gas industry taken as a whole is essentially more hazardous than many other industries which do not receive special tax treatment. Moreover, the degree of risk in the industry has been reduced since 1926 by improvements in geological and engineering tools and techniques, by the adoption of proration programs in most of the oil producing States, and by the development of financial arrangements for the spreading and sharing of risk.

Large integrated companies which dominate the petroleum industry are in a position to absorb and distribute business risks on the insurance principle. In 1948, 30 large companies with a combined capital of $10.6 billion produced 54 percent of the domestic production of crude oil. Because of the scale of their operations and the diversification of their income these companies are in a position to rely on the law of averages to offset losses against gains. Ordinarily such large companies do not experience a net loss on their exploratory activities. For example, in 1948 the 30 large oil companies drilled 11,375 wells, or an average of 379 for each company. Of these wells 80 percent were successful.

These conditions are reflected in a favorable appraisal of the securities of such companies in the investment market. A substantial proportion of the industry's operations is now conducted by companies whose common stocks are favorite holdings of investment trusts. Statistical data compiled by Aigeltinger & Co. indicate that as of December 31, 1950, the largest holdings of both closed end and open end trusts were as follows: [1]

Common stock of—	Value (millions of dollars)	Number of trusts holding	Common stock of—	Value (millions of dollars)	Number of trusts holding
International Paper	$43.8	52	Standard Oil (New Jersey)	$26.7	58
Continental Oil	38.9	69	Goodrich	24.5	43
Amerada Petroleum	37.8	24	Standard Oil (California)	23.7	42
Gulf Oil	37.5	67			
Texas Co	29.1	54			
Kennecott Copper	27.2	63			

Six of the nine largest holdings were the common stocks of oil companies. The same source reports that 37.6 percent of the holdings of investment companies are in the stocks of oil and gas companies. The next largest holdings are the stocks of chemical companies, which represent 12.3 percent of the total.

Smaller units of the industry have also developed effective methods of pooling risks. They frequently receive financial assistance from the large companies through what are termed "dry hole contributions" to independents as well as funds advanced for the purchase of leases in prospecting areas. Wealthy individual investors may also spread their total investment over a number of projects. Moreover, their tax deductions for intangible drilling expenses and dry wells result in a large part of the entire cost being borne by the Government.

Representatives of the industry also argued that the reduction in the rate to 15 percent would make it difficult to finance the expansion required by the present emergency conditions, would discourage exploratory activity in the industry, and would produce a decline in its reserve position at a most inappropriate time. The modifications of the flat reduction in the depletion rate discussed above are designed to eliminate these objections. The special treatment for the stripper well and secondary recovery operations will maintain their present credit position. The allowance of a deduction in excess of 15 percent which is contingent upon the actual expenditure of funds for discovery and exploration would insure a continuing flow of new investments into these channels, thus preventing the diminution of the industry's reserves.

III. INTANGIBLE DRILLING AND DEVELOPMENT COSTS

In addition to percentage depletion, taxpayers in the oil industry enjoy an additional special advantage since they are allowed to deduct as current expenses a substantial part of the capital costs of developing their properties. The amounts deducted as expense in this way do not reduce the future percentage depletion allowances, which are computed as a prescribed percentage of the gross income from the property.

[1] *Barron's*, March 5, 1951, p. 23.

These provisions, in combination, result in a double deduction, once when the costs are incurred and again through percentage depletion. A very large portion of an oil operator's capital outlay, exclusive of depreciable items, may be drilling and development costs. Since these expenditures may be deducted as an expense and thus recovered tax-free at the outset, only a minor portion remains to be recovered through depletion allowances. Nevertheless, percentage depletion allowances, based on the income from the property, will be as large as though none of the original capital outlay had been deducted as expenses. Hence, the depletion allowances overlap the initial deduction of a large portion of the capital investment.

The combination of the privilege of expensing intangible drilling and development costs and the 27½-percent depletion allowance leads in some cases to the complete exemption of exceedingly profitable ventures in the oil and gas industries. For example, in 1949, an operator and his wife received a gross income of approximately $20,000,000 as individuals and through a corporation which they owned. The ordinary deductions against this income, including cost depletion and losses on unsuccessful ventures, were about $13,000,000, leaving more than $7,000,000 of net income. However, roughly half of this amount was exempted from tax by deductions for percentage depletion in excess of cost depletion and the remaining half was offset by intangible drilling and development costs of new oil wells. As a result, no income tax, either individual or corporate, was paid in this case. This is inconsistent with the 50 percent of net income limitation imposed on the percentage depletion deduction which is intended to insure that a property with net income should pay some tax.

In some cases the results under existing law are to exempt also additional income obtained from outside sources. For example, a fortune made in a manufacturing enterprise was divided among four members of a family. The business and the other investments of the family provided an aggregate net income of $635,000 in 1949, of which $126,000 was derived from oil royalties. This income was net of all costs of production including cost depletion and losses on unsuccessful ventures. In addition depletion in excess of costs was allowed in the amount of $33,000, and $544,000 was offset for tax purposes by deductions for oil drilling and development. As a result taxable net income was reduced from the original $635,000 to $58,000 and an aggregate tax of only $14,000 was paid. Thus, the $577,000 special tax deduction for the oil investment served not only to offset completely the current income from oil investments but also $451,000 of income from other sources.

The staffs suggest that the percentage-depletion allowance for oil and gas properties be computed by applying the percentage to the gross income reduced by the amount of the intangible drilling and development costs claimed as a deduction with respect to the property.

The table which follows shows the separate and combined effects of the reduction in the percentage rate on oil and gas to 15 percent and the reduction in the basis upon which the depletion rate is applied by the amount of expenses development costs.

	Present law	Change in depletion rate only (a)	Reduction in gross income by amount of intangible drilling and development costs with no rate change (b)	Total effect (a)+(b)
Gross income	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Operating costs	250,000	250,000	250,000	250,000
Development costs	200,000	200,000	200,000	200,000
Total cost	450,000	450,000	450,000	450,000
Net income before depletion	550,000	550,000	550,000	550,000
Depletion	275,000	150,000	[1] 220,000	[2] 120,000
Net taxable income	275,000	400,000	330,000	430,000

[1] This is 27½ percent applied to $800,000, the latter being gross income of $1,000,000 minus development costs of $200,000.
[2] This is 15 percent applied to $800,000, the latter being gross income of $1,000,000 minus development costs of $200,000.

In the case cited where the gross income is a million dollars, the operating costs are $250,000, and the development costs $200,000, the taxable net income under existing law would be $275,000. The reduction in the depletion rate to 15 percent would raise the taxable income from $275,000 to $400,000. The change in the treatment of intangible drilling and development costs taken alone would increase the taxable income from $275,000 to $330,000. In combination these changes would increase the taxable net income from $275,000 to $430,000.

Under the modifications discussed above the effect in the case of stripper well and secondary recovery operations would be limited to the change in the treatment of intangible drilling and development costs. If the above case represented production of these types the increase in net income would be from $275,000 to $330,000.

An additional deduction for exploration and discovery expenditures in excess of the 15-percent depletion deduction would permit the operator in the illustrative case cited, if he were not a stripper well or secondary recovery operator, to reduce his taxable net income from $430,000 to $330,000 by spending $220,000 for exploration and discovery purposes.

IV. THE DEPLETION RATE ON SULFUR

The reduction in the depletion rate on sulfur from 23 to 15 percent also raises the same problems as the rate change for oil and gas.

The sulfur industry is highly concentrated and profitable. The industry's product is unquestionably important from the point of view of national defense. About 75 percent of its output is used in the preparation of sulfuric acid which is a basic material for the chemical industry and necessary for many other industries.

Virtually the entire depletion allowance is in excess of the amount allowable under the cost depletion approach.

Until recently the industry's production appears to have been adequate for current needs. In fact, in 1950 exports were 1.4 million long tons out of a total production of 5.5 million tons. However, the representatives of the industry in their appearance before this committee expressed concern over the depletion of the industry's reserves and argued that the maintenance of the 23-percent rate was necessary as a means of financing the exploration and discovery required for the opening up of new fields. To meet this argument sulfur producers might also be given the privilege of obtaining a deduction in excess of the 15-percent depletion allowance, provided that exploration and discovery costs are in excess of that amount. In the case of sulfur the maximum additional deduction would be the difference between 15 percent and 23 percent of gross income. Thus the producers in this industry would be able to retain the tax benefits enjoyed under present law provided they actually used the funds for the exploration and discovery work which they hold essential to the replacement of reserves.

V. THE DEPLETION RATE ON NONMETALLIC MINERALS

As in the case of oil and sulfur, representatives of a number of the nonmetallic mineral industries appeared at the committee's hearings to protest against the proposed reduction from 15 to 5 percent in the percentage depletion rate. Many of these witnesses argued that the shortage in the current markets for their products and the need for developing a reserve capacity in order to meet the requirements of national defense required the retention of the existing 15 percent rate. This argument could be met, in the case of nonmetallic minerals, as in the case of oil and sulfur by permitting producers to take a deduction in excess of the 5 percent depletion allowance provided that their expenditures for exploration and discovery are in excess of that amount. In these cases the maximum additional deduction would be the difference between 5 and 15 percent of gross income. Therefore, in these cases also, the benefits enjoyed under existing law could be obtained providing the producers expended a sufficient amount for exploration and discovery purposes.

TABLE 1.—*Petroleum produced in the United States, 1943–50, by States*

[Millions of barrels]

State	1943	1944	1945	1946	1947	1948	1949	1950
Production:								
Alabama	(2)	(2)	0.2	0.4	0.4	0.5	0.5	0.7
Arkansas	27.6	29.4	28.6	28.4	30.0	31.7	29.9	31.1
California	284.2	311.8	326.5	314.7	333.1	340.1	332.8	328.0
Colorado	2.3	3.1	5.0	11.9	15.7	17.9	24.5	23.1
Florida	(2)	(2)	(2)	.1	.3	(1)	(1)	.5
Illinois	82.3	77.4	75.1	75.3	66.5	64.8	64.6	62.1
Indiana	5.3	5.1	4.9	6.7	6.1	7.0	9.6	10.7
Kansas	106.2	98.8	96.4	97.2	105.1	110.9	101.9	107.2
Kentucky	7.9	9.6	10.3	10.6	9.4	8.8	8.7	10.1
Louisiana	123.6	129.6	131.1	143.7	160.1	181.5	190.7	210.4
Michigan	20.8	18.5	17.3	17.1	16.2	16.9	16.5	16.0
Mississippi	18.8	16.3	19.1	24.3	35.0	45.8	38.0	39.1
Montana	7.9	8.6	8.4	8.8	8.7	9.4	9.1	8.2
Nebraska	.6	.4	.3	.3	.2	.2	.3	1.2
New Mexico	38.9	39.6	37.4	36.8	40.9	48.0	47.9	47.3
New York	5.1	4.7	4.6	4.9	4.8	4.6	4.2	4.2
Ohio	3.3	2.9	2.8	2.9	3.1	3.6	3.4	3.4
Oklahoma	123.2	124.6	139.3	135.0	141.0	154.5	151.9	163.8
Pennsylvania	15.8	14.1	12.5	13.0	12.7	12.7	11.4	12.0
Texas	594.3	746.7	754.7	760.2	820.2	903.5	744.0	831.8
West Virginia	3.3	3.1	2.9	2.9	2.6	2.7	2.8	2.8
Wyoming	34.3	33.4	36.2	39.0	44.8	55.0	46.9	61.2
Other States	(2)	.1	.1	.1	.1	.1	.7	
Total, United States	1,505.6	1,677.9	1,713.7	1,733.9	1,857.0	2,020.2	1,840.3	1,976.2
Value at wells:								
Total (millions of dollars)	1,809.0	2,033.0	2,094.3	2,442.6	3,577.9	5,245.1	4,674.8	(1)
Average per barrel	$1.20	$1.21	$1.22	$1.41	$1.93	$2.60	$2.54	(1)

[1] Not available.
[2] Less than 100,000.

Source: Bureau of Mines.

TABLE 2.—*United States production, imports, and estimated reserves of crude oil, 1926–50*

[Millions of barrels]

Year	Production	Imports	Estimated reserves	Year	Production	Imports	Estimated reserves
1926	711	60	8,800	1939	1,265	33	18,483
1927	901	58	10,500	1940	1,353	43	19,025
1928	901	80	11,000	1941	1,402	51	19,589
1929	1,007	79	13,200	1942	1,387	13	20,083
1930	898	62	13,600	1943	1,506	14	20,064
1931	851	47	13,000	1944	1,678	45	20,453
1932	785	45	12,300	1945	1,714	74	20,827
1933	906	32	12,000	1946	1,734	86	20,874
1934	908	36	12,177	1947	1,857	97	21,488
1935	997	32	12,400	1948	2,020	129	23,280
1936	1,100	32	13,063	1949	1,840	155	24,184
1937	1,279	27	15,507	1950	1,976	173	26,121
1938	1,214	26	17,348				

Sources: American Petroleum Institute, Petroleum Facts and Figures; Oil Industry Information Committee, Petroleum Industry Record; Bureau of Mines, Minerals Yearbook; Oil and Gas Journal, Department of Commerce.

TABLE 3.—*Depletion provisions in State corporate income tax laws*

State	Discovery values depletion	Percentage depletion	Oil	Gas	Sulfur	Metals	Coal	Other minerals	Net income limit	Comments
Alabama	Yes	No							None	Discovery value option granted only on discoveries made after Jan. 1, 1933.
Arizona	No	No							None	Law merely authorizes a "reasonable allowance." No mention is made of discovery value or percentage depletion.
									Percent	
Arkansas	No	Yes	25	25	[1] 15	[1] 15	[1] 15	[1] 15	50	Percentage depletion is available only to the discoverer in the case of minerals.
California	Yes	Yes	27½	27½	23	15	5	15	50	
Colorado	Yes	Yes	27½	27½	40	40	5	40	50	Oil shale receives the 40-percent rate.
Connecticut	Yes	Yes	27½	27½	23	15	5	15	50	Authorizes same allowance as is permitted by Federal income tax law.
Georgia	No	No								
Idaho	No	Yes	27½	27½	23	15	5		50	
Kansas	No	Yes	27½	27½		15	5		50	
Kentucky	Yes	Yes	27½	27½	23	15	5	15	50	Authorizes same allowance used in Federal income-tax return.
Louisiana	Yes	Yes	27½	27½	23	15	5		50	
Maryland	Yes	Yes	27½	27½	23	15	5	15	50	Authorizes same allowance as is permitted by Federal income-tax law.
Massachusetts	Yes	Yes	27½	27½	23	15	5	15	50	Do.
Minnesota	No	No								Iron mining is not subject to the income tax. It is taxed on the basis of output.
Mississippi	No	Yes	15						30	Total recovery is limited to cost.
Missouri	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	"When the allowance authorized .* * * shall equal the capital originally invested, or in the case of a purchase made prior to Jan. 1, 1917, the fair market value as of that date, no further allowance shall be made."
Montana	Yes	Yes	27½	27½	23	15	5	15	50	Applies current Federal law.
New Mexico	No	Yes	27½	27½	27½	27½	27½	27½	50	In all cases except gas and oil, percentage depletion is available only when the ore body has not been "blocked out."
New York	Yes	Yes	27½	27½	23	15	5	15	50	Tax is based on net income as defined for the purposes of the Federal income tax.
North Carolina	No	No								
North Dakota	No	No								
Oklahoma	No	Yes	20	20	20	15	5	[3] 15	50	
Oregon	No	Yes				15			50	

Pennsylvania	Yes	Yes	27½	27½	23	15	5	15	50	Tax is imposed on net income as defined for the purposes of the Federal income tax.
Rhode Island	Yes	Yes	27½	27½	23	15	5	15	50	Do.
Utah	No	Yes								Allows 33⅓ percent of net income to "mines, oil and gas wells, other natural deposits, and timber."
Virginia	Yes	Yes	27½	27½	23	15	5	15	50	No depletion provision in law. Depreciation section construed to cover and follows Federal rules.
Vermont	Yes	Yes	27½	27½	23	15	5	15	50	Tax is imposed on net income as defined for Federal income tax purposes.
Wisconsin	No	Yes				[4] 15			50	Lead and zinc are allowed percentage depletion on the following scale: (*a*) On the first $100,000 of gross income, 15 percent; (*b*) on the second $100,000 of gross income, 10 percent; (*c*) on the third $100,000 of gross income, 5 percent; (*d*) on all in excess of $300,000, 3 percent. "When depletion allowance is taken as a deduction pursuant to thisS section the savings in tax due to such depletion allowance shall be used by the taxpayer in prospecting for ore, and proof thereof duly verified shall be furnished the department of taxation." Regulations require money be spent during or within 12 months after the close of the year in which the depletion allowance is taken.

[1] Prior to 1947 the rate was 25 percent.
[2] "A reasonable allowance determined by regulation." Former regulations followed Federal law.
[3] Rock asphalt.
[4] Lead and zinc only.

Source: Commerce Clearing House Service.